

Message Text

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PAGE 01 ZAGREB 00479 040721Z

12

ACTION EB-11

INFO OCT-01 EUR-25 ADP-00 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

INT-08 SCEM-02 PA-03 PRS-01 USIA-15 FPC-01 RSR-01

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FM AMCONSUL ZAGREB

TO SECSTATE WASHDC 2033

USDOC WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BONN

AMEMBASSY BUDAPEST

AMEMBASSY BUNHAREST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY VIENNA

AMEMBASSY WARSAW

USMISSION EC BRUSSELS

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DEPT PASS EXIM AND COMMERCE

E.O. 11652: N/A

TAGS: ENRG ETRD EFIN YO RO HU CZ

SUBJECT: MAJOR PROJECTS: OIL PIPELINE

REF: BELGRADE 3375 (NOTAL); ZAGREB 0115 (NOTAL)

SUMMARY: CONVERSATION AUGUST 1 WITH INA PIPELINE PLANNER

INDICATES PROJECT COULD BECOME MORE COSTLY AND COMPLEX WITH

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PAGE 02 ZAGREB 00479 040721Z

LINK UPS TO POLAND AS WELL AS ROMANIA REPORTEDLY BEING CON-

SIDERED. SOURCE ALSO STATED THAT RECENT TITO-BRANDT CONVERSATIONS RAISED POSSIBILITY FRG FINANCING IN RETURN ACCESS TO IRANIAN CRUDE THROUGH EVENTUAL EXTENSION LINE FROM WESTERN CZECHOSLOVAKIA. IBRD CREDITS ALSO TO BE SOUGHT. COMPLETION TECHNICAL DOCUMENTATION EXPECTED THIS FALL. CONSTRUCTION OIL PORT "SHOULD BEGIN" JANUARY AND LAYING FIRST PIPE IN MAY 1974. BECAUSE OF DOLLAR-MARK SHIFT AS WELL AS REPUTATION EXIM FINANCING, YUGOSLAVS REPORTEDLY NOW LEANING TOWARD US VICE PREVIOUSLY FAVORED FRG AS SOURCE MAJOR DELIVERIES PIPE, OTHER EQUIPMENT. NAFTAGAS DIRECTOR KOVAC LIKELY RAISE THIS SUBJECT WITH EXIM, AS WELL AS CREDITS FOR SERBIAN GAS LINE EQUIPMENT DURING PROJECTED VISIT TO WASHINGTON IN EITHER SEPTEMBER OR OCTOBER. BECHTEL FAVORED BY INA FOR ENGINEERING, BUT SOURCE BELIEVED PREVIOUS INA LETTER INTENT NOW CONSTITUTED ONLY "MORAL" OBLIGATION IN VIEW CHANGE IN INVESTOR AND SCOPE OF PROJECT.

END SUMMARY

1. ACCORDING PLANNING OFFICIAL OF INA, CROATIA'S OIL AND GAS ENTERPRISE, ROMANIANS SCHEDULED ADVISE YUGOSLAVS BY AUGUST 10 WHETHER OR NOT THEY WISH PIPELINE LINK TO TIMISOARA CONNECTING EITHER FROM NOVI SAD OR PANCEVO. POLES REPORTEDLY ALSO HAVE AUGUST TO DECIDE WHETHER THEY WISH LINK UP AT NORTHERN END. SUCH ADDITIONAL REQUIREMENTS COULD NECESSITATE INCREASING MAIN TRUNK PIPE SIZE FROM 36" TO 40" OR 42". THIS COULD RAISE TOTAL PRICE \$10-12 MILLION.

2. DISCUSSING \$200 MILLION COST FIGURE GIVEN IN PRESS, SOURCE NOTED THAT THIS FIGURE DOES NOT INCLUDE: (A) SECOND STAGE COMPLETION OF OIL PORT AT OMISALJ (\$40 MILLION); (B) SPUR LINE FOR LENDAVA (\$6 MILLION); (C) CERTAIN "FINANCING COSTS" (\$24 MILLION); AND (D) POSSIBLE CONNECTIONS FOR TIMISOARA AND THE RIJEKA PORT REFINERY (\$6 AND \$2 MILLION RESPECTIVELY)³ COMPUTATIONS ALSO USES OLD "17-1" DOLLAR/DINAR RATE. EQUIPMENT COST ESTIMATES BASED ESSENTIALLY JAPANESE OFFERS MADE 1970-71 AS ADJUSTED FOR INFLATION.

3. DESPITE COSTS, SOURCE CLEARLY BELIEVED PROJECT NOW ENJOYS STRONG MOMENTUM EMBODYING NATIONAL COMMITMENT AT MINIMUM TO GET TRACK TO SISAK AND HUNGARIAN BORDER COMPLETED DURING 1976.

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PAGE 03 ZAGREB 00479 040721Z

FINAL SPECIFICATIONS WILL BE DRAWN UP BEGINNING IN SEPTEMBER WITH CIVIL WORKS AT OMISALJ, HOPEFULLY BEGINNING IN JANUARY. FIRST PIPE SHOULD BE LAID BY MAY OR JUNE 1974. MAIN ENGINEERING PROBLEMS WILL BE UNDERWATER CROSSING 50 METER-DEEP CHANNEL BETWEEN KRK AND MAINLAND AND COASTAL MOUNTAINS. HERE YUGOSLAVS LIKELY REQUIRE OUTSIDE HELP FOR ENGINEERING ASSISTANCE.

4. SOURCE NOTED THAT WHILE BECHTEL HELD INA LETTER OF INTENT ISSUED CONNECTION ORIGINAL PROJECT, CHANGE IN INVESTOR AND SCOPE OF UNDERTAKING PROBABLY NOW RENDERED THIS "MORAL" OBLIGATION. FROM ITS STANDPOINT, INA REPORTEDLY VERY SATISFIED PAST RELATIONSHIP AMERICAN FIRM, DEFINITELY INCLINED ACCORD BECHTEL FIRST PREFERENCE.

5. SOURCE STATED YUGOSLAVS NOW EXTREMELY INTERESTED IN POSSIBILITY LARGE PURCHASES US MANUFACTURED PIPE, OTHER EQUIPMENT. ORIGINAL INA PLAN HAD FAVORED PURCHASE FRG-ORIGIN PIPE BUT CHANGE IN DOLLAR-MARK RELATIONSHIP NOW PROBABLY GAVE US EITHER EQUALITY OR EVEN PRICE ADVANTAGE. PROSPECT EXIM FINANCING ALSO VERY ATTRACTIVE. SOURCES STATED THAT ANDRAS KOVAC, GENERAL DIRECTOR NAFTAGAS WHO PLANS TRIP TO US SEPTEMBER OR OCTOBER TO DISCUSS CREDITS FOR SERBIAN NATURAL GAS LINE MIGHT ALSO LIKE TO DISCUSS FINANCING FOR OIL PIPELINE.
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